

**REPORT OF THE AUDIT OF THE
MAGOFFIN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MAGOFFIN COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Magoffin County Fiscal Court for fiscal year ended June 30, 2004.

We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information of Magoffin County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$1,158,028 as of June 30, 2004. The fiscal court had unrestricted net assets of \$811,297 in its governmental activities as of June 30, 2004, with total net assets of \$1,158,028. The fiscal court had total debt principal as of June 30, 2004, of \$9,128,145 with \$752,987 due within the next year.

Report Comments:

- The County Should Improve Its Internal Control Procedures
- The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used
- The County Should Not Have Bank Overdraft Charges
- The County Treasurer Should Prepare Accurate Bank Reconciliations For The Payroll Account
- The County Should Not Use Counter Checks
- The County Should Eliminate The Deficit In The Payroll Account
- The Sheriff Owes The County \$11,313 For Retirement
- The County Should Not Overspend Its Jail And 911 Funds
- The County Should Eliminate The Cash Deficit In The 911 Fund
- The County Should Eliminate Its Fund Deficits In The General And Solid Waste Funds
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Maintain An Encumbrance List

Deposits:

As of August 31, 2003, \$347,069 of the fiscal court's deposits were uninsured and uncollateralized by bank securities or bonds.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
MAGOFFIN COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	14
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	41
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	45
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	48
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	52
COMMENTS AND RECOMMENDATIONS	57
REPORT AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	65
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Magoffin County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Magoffin County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

The county has implemented Governmental Accounting Standards Board Statements 33, 34, and 37 as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Magoffin County, Kentucky's basic financial statements. The accompanying supplementary information and combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 23, 2005 on our consideration of Magoffin County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the comments and recommendations, included herein, which discuss the following report comments:

- The County Should Improve Its Internal Control Procedures
- The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used
- The County Should Not Have Bank Overdraft Charges
- The County Treasurer Should Prepare Accurate Bank Reconciliations For The Payroll Account
- The County Should Not Use Counter Checks
- The County Should Eliminate The Deficit In The Payroll Account
- The Sheriff Owes The County \$11,313 For Retirement
- The County Should Not Overspend Its Jail And 911 Funds
- The County Should Eliminate The Cash Deficit In The 911 Fund
- The County Should Eliminate Its Fund Deficits In The General And Solid Waste Funds
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Maintain An Encumbrance List

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 23, 2005

MAGOFFIN COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Bill W. May	County Judge/Executive
Troy W. Minix	Magistrate
Manuel Minix	Magistrate
Pernell Lemaster	Magistrate

Other Elected Officials:

Donald W. McFarland	County Attorney
Gene Helton	Jailer
Haden B. Arnett	County Clerk
Roger Gullet	Circuit Court Clerk
Randall Jordan	Sheriff
Bill Patrick	Property Valuation Administrator
Jerry Dunn	Coroner

Appointed Personnel:

Mary Lea Miller	County Treasurer
Marcella Salyer	Finance Officer

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

MAGOFFIN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,990,661
Total Current Assets	<u>1,990,661</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Construction In Progress	5,187,644
Land and Land Improvements	804,003
Buildings	1,261,719
Vehicles and Equipment	743,148
Infrastructure Assets - Net of Depreciation	<u>298,998</u>
Total Noncurrent Assets	<u>8,295,512</u>
Total Assets	<u>10,286,173</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	293,300
Financing Obligations Payable	<u>459,687</u>
Total Current Liabilities	<u>752,987</u>
Noncurrent Liabilities:	
Bonds Payable	7,398,500
Financing Obligations Payable	<u>976,658</u>
Total Noncurrent Liabilities	<u>8,375,158</u>
Total Liabilities	<u>9,128,145</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	(632,683)
Restricted For:	
Capital Projects	979,414
Unrestricted	<u>811,297</u>
Total Net Assets	<u>\$ 1,158,028</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,295,364	\$ 104,297	\$ 1,236,008	\$
Protection to Persons and Property	515,618		151,990	
General Health and Sanitation	558,076	483,114	109,784	
Social Services	32,505			
Recreation and Culture	63,592			
Roads	872,426	10	1,429,682	300,000
Interest on Long-term and Short-term det	389,131			444,129
Capital Projects	1,900			
Total Governmental Activities	3,728,612	587,421	2,927,464	744,129
Total Primary Government	\$ 3,728,612	\$ 587,421	\$ 2,927,464	\$ 744,129

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets
Primary Government

Governmental	
Activities	
<hr/>	
\$	44,941
	(363,628)
	34,822
	(32,505)
	(63,592)
	857,266
	54,998
	(1,900)
<hr/>	
	530,402
<hr/>	
\$	530,402
<hr/>	
	431,402
	68,570
	81,897
	240,854
	5,376
	51,406
	11,079
<hr/>	
	890,584
<hr/>	
	1,420,986
<hr/>	
	(262,958)
<hr/>	
\$	1,158,028
<hr/>	

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	General Fund	Road Fund	Solid Waste Fund	Building Admini- stration Fund	Magoffin County Public Properties Corporation Justice Center
ASSETS					
Cash and Cash Equivalents	\$	\$ 4,809	\$ 1,418	\$ 1,010,784	\$ 979,414
Total Assets	<u>0</u>	<u>4,809</u>	<u>1,418</u>	<u>1,010,784</u>	<u>979,414</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deficit Cash	4,209				
Financing Obligations Payable			199,950		
Total Liabilities	<u>4,209</u>	<u>0</u>	<u>199,950</u>	<u>0</u>	<u>0</u>
FUND BALANCES					
Fund Balances:					
Unreserved:					
General Fund	(4,209)				
Special Revenue Funds		4,809	(198,532)		
Capital Projects Funds				1,010,784	979,414
Total Fund Balances	<u>(4,209)</u>	<u>4,809</u>	<u>(198,532)</u>	<u>1,010,784</u>	<u>979,414</u>
Total Liabilities and Fund Balances	<u>\$ 0</u>	<u>\$ 4,809</u>	<u>\$ 1,418</u>	<u>\$ 1,010,784</u>	<u>\$ 979,414</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued).

Non- Major Funds	Total Governmental Funds
\$ 4,728	\$ 2,001,153
<u>4,728</u>	<u>2,001,153</u>

6,283	10,492
	<u>199,950</u>
<u>6,283</u>	<u>210,442</u>

	(4,209)
(1,555)	(195,278)
	<u>1,990,198</u>
<u>(1,555)</u>	<u>1,790,711</u>
<u>\$ 4,728</u>	<u>\$ 2,001,153</u>

**Reconciliation of the Balance Sheet - Governmental
Funds to the Statement of Net Assets**

Total Fund Balances	\$ 1,790,711
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,060,604
Accumulated Depreciation	(765,092)
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing obligations	(1,236,395)
Bonded debt	<u>(7,691,800)</u>
Net Assets Of Governmental Activities	<u>\$ 1,158,028</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Solid Waste Fund	Building Admini- stration Fund
REVENUES				
Taxes	\$ 704,776	\$	\$	\$
Excess Fees	5,376			
Licenses and Permits	93,881			
Intergovernmental	1,243,801	1,408,839	109,785	
Charges for Services			468,282	
Miscellaneous	7,745	8,744	33,600	
Interest	8,517	126	7	2,380
Total Revenues	<u>2,064,096</u>	<u>1,417,709</u>	<u>611,674</u>	<u>2,380</u>
EXPENDITURES				
General Government	744,251	211		
Protection to Persons and Property				
General Health and Sanitation			677,736	
Social Services	7,560			
Recreation and Culture				
Roads		1,122,861	278	
Debt Service	114,466	39,990	99,390	
Capital Projects	1,900			
Administration	216,954	128,007	102,189	
Total Expenditures	<u>1,085,131</u>	<u>1,291,069</u>	<u>879,593</u>	
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>978,965</u>	<u>126,640</u>	<u>(267,919)</u>	<u>2,380</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	217,167	130,000	265,000	1,008,404
Transfers To Other Funds	(1,329,904)	(289,943)	(96,000)	
Total Other Financing Sources (Uses)	<u>(1,112,737)</u>	<u>(159,943)</u>	<u>169,000</u>	<u>1,008,404</u>
Net Change in Fund Balances	(133,772)	(33,303)	(98,919)	1,010,784
Fund Balances - Beginning (Restated)	129,563	38,112	(99,613)	
Fund Balances - Ending	<u>\$ (4,209)</u>	<u>\$ 4,809</u>	<u>\$ (198,532)</u>	<u>\$ 1,010,784</u>

The accompanying notes are an integral part of the financial statements.

MAGOFFIN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Magoffin County Public Properties Corporation Justice Center	Non- Major Funds	Total Governmental Funds
\$	\$ 113,673	\$ 818,449
		5,376
		93,881
444,129	467,066	3,673,620
		468,282
	4,214	54,303
24,608	49	35,687
<u>468,737</u>	<u>585,002</u>	<u>5,149,598</u>
	20,420	764,882
	508,192	508,192
	5,804	683,540
	24,945	32,505
	52,388	52,388
	28,668	1,151,807
606,258	9,094	869,198
3,577,890		3,579,790
2,022	62,939	512,111
<u>4,186,170</u>	<u>712,450</u>	<u>8,154,413</u>
<u>(3,717,433)</u>	<u>(127,448)</u>	<u>(3,004,815)</u>
	277,276	1,897,847
	<u>(182,000)</u>	<u>(1,897,847)</u>
	<u>95,276</u>	
(3,717,433)	(32,172)	(3,004,815)
4,696,847	30,617	4,795,526
<u>\$ 979,414</u>	<u>\$ (1,555)</u>	<u>\$ 1,790,711</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

MAGOFFIN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ (3,004,815)
--	----------------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,050,891
Depreciation Expense	(105,157)

Long-term debt principal payments are expensed in the Governmental Funds as a use of current financial resources. However, they decrease long-term liabilities reported in the statement of net assets and have been eliminated from the Statement of Activities.

Financing Obligations	283,100
Bond Payments	<u>196,967</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 1,420,986</u></u>
---	----------------------------

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS.....	30
NOTE 3.	CAPITAL ASSETS	31
NOTE 4.	SHORT-TERM DEBT - LINES OF CREDIT.....	32
NOTE 5.	LONG-TERM DEBT.....	32
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM.....	37
NOTE 7.	INSURANCE	37
NOTE 8.	CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS	38

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Magoffin County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Magoffin County does not have any discretely presented component units.

Blended Component Units

The following legally separate organizations provide their services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. These organizations' balances and transactions are reported as though they are part of the county's primary government using the blending method.

Magoffin County Public Properties Corporation

The Magoffin County Fiscal Court appoints a voting majority of the Magoffin County Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Magoffin County Public Properties Corporation.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Magoffin County Elected Officials Not Part Of Magoffin County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Magoffin County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not included in the financial statements of Magoffin County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Since there is only one fund type (governmental) presented for Magoffin County, major funds are those whose total assets, liabilities, revenues, or expenditures/expenses are a least ten percent of the corresponding total for all governmental funds combined. The fiscal court may also designate any fund as major. Major individual governmental funds are reported as separate columns in the financial statements.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Fund - The primary purpose of this fund is to account for the solid waste expenses of the county. The primary sources of revenue for this fund are monthly collection fees and from the state and federal government. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Building Administration Fund - The primary purpose of this fund is to account for local government economic development funds obtained by the county to construct a courthouse annex.

Magoffin County, Public Properties Corporation - Justice Center - The Magoffin County, Public Properties Corporation - Justice Center accounts for the activities of the Magoffin County, Public Properties Corporation - Justice Center, a blended component unit of the county. The Magoffin County, Public Properties Corporation - Justice Center issued debt to purchase property and build facilities of the justice center. The Magoffin County, Public Properties Corporation - Justice Center entered into a contract, lease, and option with the County and Administrative Office of The Courts (AOC), Commonwealth of Kentucky. The Governor's Office for Local Development does not require the fiscal court to report or budget these funds.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Fund, Local Government Economic Assistance Fund, Community Development Block Grant Fund, Forest Fire Fund, Community Center Sinking Fund, 911 Fund, and Reserve Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Capital Projects Fund:

The Magoffin County, Public Properties Corporation - Justice Center and the Building Administration Fund are presented as capital projects funds. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 31 following the assessment, and subject to lien and sale on June 30 following the delinquency date.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The county is reporting only infrastructure, placed in service after July 1, 2003.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Machinery & Equipment	\$ 5,000	3-25
Motor Vehicles	\$ 5,000	10
Buildings	\$ 5,000	20-50
Land Improvements	\$ 5,000	20-40
Infrastructure	\$ 5,000	10-50

G. Long-term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances. "Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information (Continued)

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

A formal budget is not adopted for the Magoffin County Public Properties Corporation Justice Center Fund. The Governor's Office for Local Development does not require this fund to be budgeted.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. However, as of August 31, 2003, the collateral and the FDIC insurance together did not equal or exceed the amount on deposit, leaving \$347,069 of public funds uninsured and unsecured.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county as of August 31, 2003.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by the county's agent in the county's name	185,000
Uncollateralized and uninsured	<u>347,069</u>
Total	<u><u>\$ 632,069</u></u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 804,003	\$	\$	\$ 804,003
Construction In Progress	1,609,754	3,577,890		5,187,644
Total Capital Assets Not Being Depreciated	2,413,757	3,577,890		5,991,647
Capital Assets, Being Depreciated:				
Buildings	1,712,791			1,712,791
Vehicles and Equipment	883,165	161,545		1,044,710
Infrastructure		311,456		311,456
Total Capital Assets Being Depreciated	2,595,956	473,001		3,068,957
Less Accumulated Depreciation For:				
Buildings	(413,105)	(37,967)		(451,072)
Vehicles and Equipment	(246,830)	(54,732)		(301,562)
Infrastructure		(12,458)		(12,458)
Total Accumulated Depreciation	(659,935)	(105,157)		(765,092)
Total Capital Assets, Being Depreciated, Net	1,936,021	367,844		2,303,865
Governmental Activities Capital Assets, Net	\$ 4,349,778	\$ 3,945,734	\$ 0	\$ 8,295,512

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 18,371
Protection to Persons and Property	7,426
General Health and Sanitation	24,081
Recreation and Culture	23,204
Roads	32,075
Total Depreciation Expense - Governmental Activities	\$ 105,157

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Short-term Debt - Lines of Credit

On October 31, 2001, the fiscal court entered into a loan agreement with Salyersville National Bank, for operating monies for the Solid Waste Fund. The total amount approved was \$100,000. This loan had an interest rate of six percent. This is a short-term note and is renewable every six months. The county pays the interest every six months and can pay off the principal at anytime or renew the debt for another six months. The principal balance of the agreement was \$99,975 as of June 30, 2004.

Also, on February 3, 2004, the fiscal court entered into a loan agreement with Salyersville National Bank, for operating monies for the Solid Waste Fund. The total amount approved was \$100,000. This loan had an interest rate of six percent. This short-term note is renewable every six months. The county pays the interest every six months and can pay off the principal at anytime or renew the debt for another six months. The principal balance of the agreement was \$99,975 as of June 30, 2004.

Changes In Short-term Liabilities

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Governmental Activities and Solid Waste Fund					
Financing Obligations	<u>\$ 100,000</u>	<u>\$ 100,000</u>	<u>\$ 50</u>	<u>\$ 199,950</u>	<u>\$ 199,950</u>

Note 5. Long-term Debt

A. First Mortgage Revenue Bonds, Series 1995

In June 1995, the fiscal court entered into an agreement with Farmers Home Administration to borrow \$140,000 at 5% interest for the completion of the Magoffin County Community Center Project. The county will pay semi annual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$116,800 as of June 30, 2004. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

<u>Fiscal Year Ended</u>		
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 3,300	\$ 5,675
2006	3,400	5,505
2007	3,600	5,325
2008	3,800	5,135
2009	4,000	4,935
2010-2014	23,100	17,541
2015-2019	29,500	16,100
2020-2024	37,600	7,955
2025	<u>8,500</u>	<u>425</u>
Totals	<u>\$ 116,800</u>	<u>\$ 68,596</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

B. Magoffin County, Public Properties Corporation - Justice Center

On August 1, 2002, the Public Properties Corporation, a component unit of the Magoffin County Fiscal Court, issued \$7,855,000 in First Mortgage Revenue Bonds for the construction of the Justice Center. Semiannual principal and interest payments are required in May and November of each year beginning May 2003. The bonds will be paid in full May 2023.

The Public Properties Corporation is acting as an agent for the Administrative Office of the Courts (AOC) in order to manage and maintain the Magoffin County Courthouse. The Public Properties Corporation expects rentals for use of the Magoffin County Courthouse to be in the full amount of the principal and interest requirements of the bonds.

Under the terms of a lease, the AOC has agreed to pay directly to the paying agent bank, the use allowance payment as provided in the lease. The lease agreement is renewable each year. The Public Properties Corporation is in reliance upon the use allowance payment in order to meet debt service on the bonds.

The AOC with the execution of the lease expressed its intention to continue to pay the full allowance payment. However, the lease does not obligate the AOC to do so.

As of June 30, 2004, the principal balance on these bonds was \$7,575,000. Debt service requirements for the remaining years are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 290,000	\$ 314,638
2006	305,000	302,602
2007	310,000	289,945
2008	325,000	277,080
2009	335,000	263,592
2010-2014	1,815,000	1,101,955
2015-2019	2,135,000	701,800
2020-2023	<u>2,060,000</u>	<u>219,598</u>
Totals	<u>\$ 7,575,000</u>	<u>\$ 3,471,210</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

C. Kentucky Infrastructure Authority Loan

The fiscal court entered into a loan agreement with Kentucky Infrastructure Authority, the purpose of which was to match funds required for the Appalachian Regional Commission grant received for the landfill construction. The total amount approved was \$300,000. This loan has an interest rate 3.8% and repayment began after all funds were drawn down. The county will pay semi annual installments due on July 1 and January 1 of each year in accordance with a schedule to complete the contract. The principal balance of the agreement was \$224,417 as of June 30, 2004. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 17,759	\$ 8,800
2006	18,440	8,083
2007	19,148	7,339
2008	19,882	6,566
2009	20,644	5,764
2010-2014	115,728	15,654
2015	12,816	257
Totals	<u>\$ 224,417</u>	<u>\$ 52,463</u>

D. Kentucky Association of Counties Lease Trust Program - Garbage Trucks

On October 11, 1999, the fiscal court entered into a capital lease agreement with Kentucky Association of Counties Lease Trust Program (KACoLT) for the purpose of purchasing two garbage trucks and two backhoes. The principal of the lease was \$212,000 with repayment to be made over a five-year period. The county has paid monthly installments in accordance with a schedule to complete the contract. The principal balance of the agreement was \$23,268 as of June 30, 2004. Principal payment requirements and scheduled interest for the remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 23,268	\$ 184
Totals	<u>\$ 23,268</u>	<u>\$ 184</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

E. Kentucky Association of Counties Lease Trust Program – Vehicles

On November 29, 1999, the fiscal court entered into a capital lease agreement with Kentucky Association of Counties Lease Trust Program (KACoLT) for the purpose of purchasing three 2000 Ford Crown Victoria automobiles. The principal of the lease was \$61,293 with repayment to be made over a five-year period. The county has paid monthly installments in accordance with a schedule to complete the contract. The principal balance of the agreement was \$8,710 as of June 30, 2004. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 8,710	\$ 66
Totals	<u>\$ 8,710</u>	<u>\$ 66</u>

F. Kentucky Area Development District - Equipment

On December 3, 2001, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$490,000 with repayment to be made over an eleven-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The county did not pay the principal due for fiscal year 2004. Ross, Sinclair and Associates paid this payment with discretionary funds and the amount of \$40,000 has been included in fiscal year 2005 principal due. The principal balance of the agreement was \$450,000 as of June 30, 2004. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 85,000	\$ 16,645
2006	45,000	19,693
2007	45,000	17,623
2008	50,000	13,310
2009	50,000	10,910
2010-2012	<u>175,000</u>	<u>15,530</u>
Totals	<u>\$ 450,000</u>	<u>\$ 93,711</u>

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

G. Kentucky Area Development District - Garbage Trucks

On April 24, 2003, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing garbage trucks. The principal of the lease was \$155,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$125,000 as of June 30, 2004. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 30,000	\$ 5,380
2006	30,000	4,360
2007	30,000	33,190
2008	<u>35,000</u>	<u>6,935</u>
Totals	<u>\$ 125,000</u>	<u>\$ 49,865</u>

H. Kentucky Area Development District - Equipment

On April 24, 2003, the fiscal court entered into a capital lease agreement with Kentucky Area Development District for the purpose of purchasing equipment. The principal of the lease was \$500,000 with repayment to be made over a five-year period. The county is to pay semiannual installments due in April and October in accordance with a schedule to complete the contract. The principal balance of the agreement was \$405,000 as of June 30, 2004. Principal payment requirements and scheduled interest for remaining term of the contract are presented below.

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest & Fees</u>
2005	\$ 95,000	\$ 16,313
2006	100,000	13,073
2007	105,000	14,163
2008	<u>105,000</u>	<u>109,805</u>
Totals	<u>\$ 405,000</u>	<u>\$ 153,354</u>

I. Interest on Long term and Short-term Debt

Interest on long-term and short-term debt on the Statement of Activities includes \$44,376 in interest on financing obligations and \$332,253 in interest on bonds.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt (Continued)

J. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 7,974,900		\$ 283,100	\$ 7,691,800	\$ 293,300
Financing Obligations	1,433,362		196,967	1,236,395	259,737
Governmental Activities					
Long-term Liabilities	<u>\$ 9,408,262</u>	<u>\$ 0</u>	<u>\$ 480,067</u>	<u>\$ 8,928,195</u>	<u>\$ 553,037</u>

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Ky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Magoffin County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MAGOFFIN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change is as follows:

	Governmental Activities	General Fund	Road Fund	Solid Waste Fund	Public Properties Corporation
Beginning balance	\$ 182,291	\$ 113,527	\$ 37,760	\$ 387	
Capital Assets (net of accumulated depreciation) previously omitted	4,349,778				
Long-term debt previously omitted	(9,408,262)				
Voided checks	16,388	16,036	352		
Short-term debt previously omitted	(100,000)			(100,000)	
Public Properties Corporation Fund previously omitted	4,696,847				4,696,847
Total Restated Beginning Balance	<u>\$ (262,958)</u>	<u>\$ 129,563</u>	<u>\$ 38,112</u>	<u>\$ (99,613)</u>	<u>\$ 4,696,847</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 995,815	\$ 995,815	\$ 704,776	\$ (291,039)
Excess Fees			5,376	5,376
Licenses and Permits	7,950	7,950	93,881	85,931
Intergovernmental Revenue	1,222,471	1,222,471	1,243,801	21,330
Miscellaneous	16,350	44,350	7,745	(36,605)
Interest	2,000	2,000	8,517	6,517
Total Revenues	<u>2,244,586</u>	<u>2,272,586</u>	<u>2,064,096</u>	<u>(208,490)</u>
EXPENDITURES				
General Government	664,002	745,094	744,251	843
Social Services		7,567	7,560	7
Debt Service	179,195	180,273	114,466	65,807
Capital Projects	1,509,250	342,032	1,900	340,132
Administration	163,705	232,782	216,954	15,828
Total Expenditures	<u>2,516,152</u>	<u>1,507,748</u>	<u>1,085,131</u>	<u>422,617</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(271,566)</u>	<u>764,838</u>	<u>978,965</u>	<u>214,127</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	286,167	286,167	217,167	(69,000)
Transfers To Other Funds	<u>(212,511)</u>	<u>(1,220,915)</u>	<u>(1,329,904)</u>	<u>(108,989)</u>
Total Other Financing Sources (Uses)	<u>73,656</u>	<u>(934,748)</u>	<u>(1,112,737)</u>	<u>(177,989)</u>
Net Changes in Fund Balance	(197,910)	(169,910)	(133,772)	36,138
Fund Balance - Beginning	<u>197,910</u>	<u>197,910</u>	<u>129,563</u>	<u>(68,347)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 28,000</u>	<u>\$ (4,209)</u>	<u>\$ (32,209)</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,497,614	\$ 1,497,614	\$ 1,408,839	\$ (88,775)
Miscellaneous	2,500	2,500	8,744	6,244
Interest	2,000	2,000	126	(1,874)
Total Revenues	<u>1,502,114</u>	<u>1,502,114</u>	<u>1,417,709</u>	<u>(84,405)</u>
EXPENDITURES				
General Government	2,700	30,700	211	30,489
Roads	1,128,756	1,181,240	1,122,861	58,379
Debt Service	47,962	47,962	39,990	7,972
Administration	191,668	139,184	128,007	11,177
Total Expenditures	<u>1,371,086</u>	<u>1,399,086</u>	<u>1,291,069</u>	<u>108,017</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>131,028</u>	<u>103,028</u>	<u>126,640</u>	<u>23,612</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			130,000	130,000
Transfers To Other Funds			(289,943)	(289,943)
Total Other Financing Sources (Uses)			<u>(159,943)</u>	<u>(159,943)</u>
Net Changes in Fund Balance	131,028	103,028	(33,303)	(136,331)
Fund Balance - Beginning			<u>38,112</u>	<u>38,112</u>
Fund Balance - Ending	<u>\$ 131,028</u>	<u>\$ 103,028</u>	<u>\$ 4,809</u>	<u>\$ (98,219)</u>

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	SOLID WASTE FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 106,746	\$ 106,746	\$ 109,785	\$ 3,039
Charges For Services	530,000	530,000	468,282	(61,718)
Miscellaneous	312,000	312,000	33,600	(278,400)
Interest	500	500	7	(493)
Total Revenues	949,246	949,246	611,674	(337,572)
EXPENDITURES				
General Health and Sanitation	563,540	681,551	677,736	3,815
Roads		279	278	1
Debt Service	166,906	158,828	99,390	59,438
Administration	133,800	123,588	102,189	21,399
Total Expenditures	864,246	964,246	879,593	84,653
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	85,000	(15,000)	(267,919)	(252,919)
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		100,000	100,000	0
Transfers From Other Funds			265,000	265,000
Transfers To Other Funds	(100,000)	(100,000)	(96,000)	4,000
Total Other Financing Sources (Uses)	(100,000)		269,000	269,000
Net Changes in Fund Balances	(15,000)	(15,000)	1,081	16,081
Fund Balances - Beginning	15,000	15,000	(99,613)	(114,613)
Fund Balances - Ending	\$ 0	\$ 0	\$ (98,532)	\$ (98,532)

**Reconciliation of the Budgetary Comparison Schedule to the
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds - Modified Cash Basis**

Fund Balance - Budgetary Basis	\$ (98,532)
Short-term debt financing not included in Statement of Revenues, Expenditures and Changes in Fund Balance:	
Proceeds from short-term debt financing	(100,000)
Fund Balance - Modified Cash Basis	\$ (198,532)

MAGOFFIN COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004 (Continued)

BUILDING ADMINISTRATION FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Interest	\$	\$ 2,380	\$ 2,380	\$ (0)
Total Revenues	0	2,380	2,380	(0)
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	0	2,380	2,380	(0)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds		1,008,404	1,008,404	(0)
Total Other Financing Sources (Uses)	0	1,008,404	1,008,404	(0)
Net Changes in Fund Balances		1,010,784	1,010,784	(0)
Fund Balances - Beginning				
Fund Balances - Ending	\$ 0	\$ 1,010,784	\$ 1,010,784	\$ (0)

MAGOFFIN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

THIS PAGE LEFT BLANK INTENTIONALLY

**MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Forest Fire Fund
ASSETS				
Cash and Cash Equivalents	\$ 103	\$ 1,674	\$ 3	\$ 1,482
Total Assets	<u>103</u>	<u>1,674</u>	<u>3</u>	<u>1,482</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due from Other Funds				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
FUND BALANCES				
Fund Balances:				
Unreserved:				
Special Revenue Funds	<u>103</u>	<u>1,674</u>	<u>3</u>	<u>1,482</u>
Total Fund Balances	<u>103</u>	<u>1,674</u>	<u>3</u>	<u>1,482</u>
Total Liabilities and Fund Balances	<u>\$ 103</u>	<u>\$ 1,674</u>	<u>\$ 3</u>	<u>\$ 1,482</u>

MAGOFFIN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2004
(Continued)

Community Center Sinking Fund	911 Fund	Reserve Fund	Total Non-Major Governmental Funds
\$ 1,244	\$	\$ 222	\$ 4,728
1,244	0	222	4,728
	6,283		6,283
0	6,283	0	6,283
1,244	(6,283)	222	(1,555)
1,244	(6,283)	222	(1,555)
\$ 1,244	\$ 0	\$ 222	\$ 4,728

THIS PAGE LEFT BLANK INTENTIONALLY

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Jail Fund	Local Government Economic Assistance Fund	Community Development Block Grant Fund	Forest Fire Fund
REVENUES				
Taxes	\$	\$	\$	\$ 827
Intergovernmental	53,776	413,290		
Miscellaneous	3,482	604		
Interest	9	35		
Total Revenues	<u>57,267</u>	<u>413,929</u>	<u>0</u>	<u>827</u>
EXPENDITURES				
General Government		20,420		
Protection to Persons and Property	293,649	97,237		
General Health and Sanitation		5,804		
Social Services		24,945		
Recreation and Culture		52,388		
Roads		28,668		
Debt Service				
Administration	15,127	18,047		
Total Expenditures	<u>308,776</u>	<u>247,509</u>	<u>0</u>	<u>0</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(251,509)</u>	<u>166,420</u>	<u></u>	<u>827</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	240,776			
Transfers To Other Funds		(175,000)		
Total Other Financing Sources (Uses)	<u>240,776</u>	<u>(175,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(10,733)	(8,580)		827
Fund Balances - Beginning	10,836	10,254	3	655
Fund Balances - Ending	<u>\$ 103</u>	<u>\$ 1,674</u>	<u>\$ 3</u>	<u>\$ 1,482</u>

MAGOFFIN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Community Center Sinking Fund	911 Fund	Reserve Fund	Total Non-Major Governmental Funds
\$	\$ 112,846	\$	\$ 113,673
			467,066
	128		4,214
	5		49
0	112,979	0	585,002
			20,420
	117,306		508,192
			5,804
			24,945
			52,388
			28,668
9,094			9,094
288	29,477		62,939
9,382	146,783	0	712,450
(9,382)	(33,804)		(127,448)
10,000	26,500		277,276
	(7,000)		(182,000)
10,000	19,500	0	95,276
618	(14,304)		(32,172)
626	8,021	222	30,617
\$ 1,244	\$ (6,283)	\$ 222	\$ (1,555)

THIS PAGE LEFT BLANK INTENTIONALLY

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2004

**MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS**

Fiscal Year Ended June 30, 2004

A. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

1. The County Should Improve Its Internal Control Procedures

The Department for Local Government requires the judge/executive to keep certain records and make certain reports. These duties include:

- receiving all claims, and preparing a master claim list to present to the fiscal court
- preparing all checks, maintain an appropriation ledger
- being responsible for the county's quarterly report
- reconciling appropriation ledger to the treasurer's appropriation ledger
- issuing purchase orders and maintaining a purchase order log
- maintaining time records(vacation/sick)

The Treasurer is currently completing these procedures. Someone other than the Treasurer should implement the above duties. This would help strengthen controls.

The County has a lack of adequate segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the county has limited options for establishing an adequate segregation of duties. We recommend the following internal control procedures be implemented to offset this internal control weakness:

- An independent person should list all receipts and agree them back to the treasurer's receipt ledger.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. This can be documented by the person initialing the envelope or bank statement.
- An independent person should complete bank reconciliation or review the treasurer's bank reconciliation for accuracy. This can be documented by the person initialing the bank reconciliation.
- An independent person should compare fiscal court order approvals to invoices and cancelled checks.
- The County Treasurer should use a stand-alone computer system. This computer should be password protected and all posting performed by the County Treasurer.
- The County Treasurer should use checks in consecutive order and any departures from that should be accounted for. An independent person should review appropriation ledger and review for checks out of sequence and ensure all voided checks or checks out of sequence are maintained.

County Judge/Executive Bill May's Response:

Agree. Recommendations will be implemented.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS

2. The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used

During audit procedures, we noted large gaps in the sequence of checks posted to the ledgers for fiscal year 2004. This is a reoccurring issue from the prior year. The majority of the checks missing from the sequence of checks from the various funds were found in the sequence of checks posted in the fiscal year 2002 and in the fiscal year 2003 check registers. Auditors determined all checks that ran through the bank accounts were posted to the funds' financial statements. None of the checks missing from this fiscal year's check sequence appear to have cleared the bank accounts. We recommend the County Treasurer use checks in the proper sequence and properly maintain a file to account for all voided checks.

County Judge/Executive Bill May's Response:

Agree. This has been implemented in FY-05.

3. The County Should Not Have Bank Overdraft Charges

The County had significant overdraft charges in fiscal year ended 2003. During current audit procedures, auditors noted that the county is still overdrawing their accounts. We recommend the county establish financial controls to ensure that checks are not drawn on any account where funds are insufficient to cover the checks written.

County Judge/Executive Bill May's Response:

Agree. Every effort is being made and will continue to be made to prevent overdraft charges.

4. The County Treasurer Should Prepare Accurate Bank Reconciliations For The Payroll Account

The bank reconciliation for the payroll account was not accurate. Auditors could not find documentation for items included on the reconciliation. We recommend accurate bank reconciliation be prepared on a monthly basis for all the County's bank accounts. Also we recommend all supporting documentation for additional deposits or unusual items noted on the bank reconciliation are available to auditors upon request. Additionally, we recommend the bank reconciliation be prepared or reviewed by someone who does not have access to the accounting records.

County Judge/Executive Bill May's Response:

Agree. The bank reconciliation reviews will be assigned to the Deputy Judge Exec.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

5. The County Should Not Use Counter Checks

The County has been using counter checks for their check writing for the Community Development Block Grant Fund and Forest Fire Fund. The County should use only numbered checks for disbursing funds from their accounts. This will enable the county to account for check numbers to determine they do not have any outstanding checks or problems with checks missing or stolen. Also this would enable the Treasurer to determine if all expenditures are posted. We recommend the county order checks and stop using any counterchecks.

County Judge/Executive Bill May's Response:

Agree. We are in the process of ordering new checks for all of our accounts, including Forestry Fund.

6. The County Should Eliminate The Deficit In The Payroll Account

Auditors noted during audit procedures that the payroll account had a deficit of \$4,561. The payroll account is a revolving account. Deposits should equal the amount of the checks written, leaving a zero balance in the account for each pay period. The treasurer should review this monthly to ensure she is depositing the appropriate amount into the payroll account. We recommend the county eliminate the deficit in the payroll account and review the payroll transactions more carefully.

County Judge/Executive Bill May's Response:

Agree. Different payroll posting procedures have been implemented.

STATE LAWS AND REGULATIONS

7. The Sheriff Owes The County \$11,313 For Retirement

During the payroll reviews, we have determined the Sheriff is not paying employee retirement deduction and employer matching for retirement to the county for fiscal year 2004. The Sheriff owes the County \$11,313. The county has been paying this for the Sheriff's office. The fiscal court approved paying the Sheriff's matching retirement for fiscal year 2005. However, the Sheriff has continued not paying the employee deduction for retirement to the county. We recommend the county request the county attorney to review this matter. The Sheriff owes the county a total of \$12,328 for fiscal years 2004 and 2005. This has contributed to the deficit in the payroll account.

County Judge/Executive Bill May's Response:

Agree. An invoice will be drafted and presented to the Sheriff for the amount due to the county

.

MAGOFFIN COUNTY
 COMMENTS AND RECOMMENDATIONS
 Fiscal Year Ended June 30, 2004
 (Continued)

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

8. The County Should Not Overspend Its Jail And 911 Funds

The Jail Fund budget was overspent by \$27,940. The 911 Fund was overspent by \$23,282. KRS 68.300 says that any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within budget appropriation, shall be void. We recommend the Fiscal Court obtain budget amendments as necessary.

County Judge/Executive Bill May's Response:

Agree.

9. The County Should Eliminate The Cash Deficit In The 911 Fund

The 911 Fund had a deficit cash balance of \$6,283 as of June 30, 2004. KRS 68.110 says the fiscal court shall not in any year expend any money in excess of the amount annually levied and collected for that year. We recommend the county avoid expending any money more than they have as available cash balances.

County Judge/Executive Bill May's Response:

Agree. Our plans are to increase revenue which would prevent cash deficit.

10. The County Should Eliminate Its Fund Deficits In The General And Solid Waste Funds

Because of adjustments necessary to account for the payroll deficit of \$4,561 and for the short-term debts of the Solid Waste Fund of \$199,950, the county's General and Solid Waste Funds have resulted in fund deficits in the amounts of \$4,209 and \$198,532, respectively. The short-term debt for the Solid Waste Fund was acquired to operate the fund due to problems collecting garbage bills. We recommend the county eliminate the payroll deficit and monitor the payroll account more closely and pay their short-term debt when it is due.

County Judge/Executive Bill May's Response:

Agree

11. The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On August 31, 2003, \$347,069 of the County's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the County require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

County Judge/Executive Bill May's Response:

Agree. The Salyersville National Bank will be contacted to ensure sufficient pledges.

MAGOFFIN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2004
(Continued)

A. FINDINGS - FINANCIAL STATEMENT AUDIT (Continued)

STATE LAWS AND REGULATIONS (Continued)

12. The County Should Maintain An Encumbrance List

The County did not maintain an encumbrance list that was posted to the 4th quarter report. When the outstanding encumbrance list is computed, the list should consist of the purchase order number, date, vendor name, amount of transaction, and the account code from which the payment will be made. We recommend the county prepare an encumbrance list for all funds and post totals to the 4th quarter report.

County Judge/Executive Bill May's Response:

Agree. This will be completed for FY - 05.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County Treasurer Should Prepare Bank Reconciliations For All Bank Accounts
The County Should Not Incur Bank Overdraft Charges
The County Treasurer Should Improve Internal Controls Over Blank Checks
The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used
The County Should Improve Its Internal Control Procedures

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Bill W. May, Magoffin County Judge/Executive
Members of the Magoffin County Fiscal Court

Report And On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magoffin County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 23, 2005. Magoffin County prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Magoffin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Magoffin County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- The County Should Improve Its Internal Control Procedures
- The County Treasurer Should Strengthen Controls Over Sequence Of Checks Used
- The County Should Not Have Bank Overdraft Charges
- The County Treasurer Should Prepare Accurate Bank Reconciliations For The Payroll Account
- The County Should Not Use Counter Checks
- The County Should Eliminate The Deficit In The Payroll Account



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the following to be a material weakness.

- The County Should Improve Its Internal Controls Procedures

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Magoffin County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Owes The County \$11,313 For Retirement
- The County Should Not Overspend Its Jail And 911 Funds
- The County Should Eliminate The Cash Deficit In The 911 Fund
- The County Should Eliminate Its Fund Deficits In The General And Solid Waste Funds
- The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits
- The County Should Maintain An Encumbrance List

This report is intended solely for the information and use of Magoffin County Fiscal Court, management, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
March 23, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

MAGOFFIN COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**

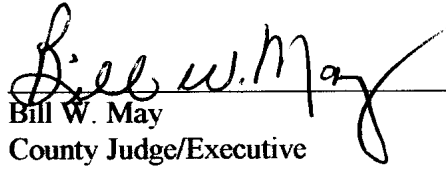
CERTIFICATION OF COMPLIANCE

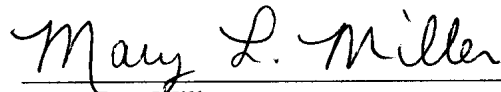
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

MAGOFFIN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Magoffin County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Bill W. May
County Judge/Executive


Mary Lea Miller
County Treasurer